

What to ask a financial planner

■ Regulatory compliance

Persons and firms who hold themselves out as providing investment advice must be registered with *either* the Securities & Exchange Commission *or* the Massachusetts Secretary of State's office. Individuals may be covered under blanket registration of the firms they work for.

- ☐ Are you registered with the Securities & Exchange Commission (SEC)? If not, is your firm registered?
- ☐ Are you registered with the Massachusetts Secretary of State's office? If not, is your firm registered?

■ Background and experience

Registered financial planners must file a form listing their education and experience with the SEC and Secretary of State (form ADV part II). Ask for a copy of this form, too.

- ☐ What credentials have you earned?
- ☐ What is your educational background?
- ☐ How long have you been practicing financial planning?
- ☐ May I have a list of references?

■ Services

- ☐ What kind of services do you offer?
- ☐ Will you prepare a complete or partial financial plan after listening to my goals?
- ☐ Do you sell financial products?
- ☐ Do you manage investments for a fee?
- ☐ Do you review a client's taxes?
- ☐ What kind of client do you generally serve?
- ☐ Do you have a minimum account size?
- ☐ What continuing service will I receive after the initial plan?
- ☐ How often do you send out portfolio reports?
- ☐ What are your research methods and sources?

■ Compensation

Both the SEC and the Secretary of State require that the individual or firm disclose this information.

- ☐ How is the firm paid?
- ☐ May I have a written estimate of what the fees will be?
- ☐ Do you have a printed fee schedule available?

For more information

The following two organizations will send you names of planners in your geographical area:

■ Financial Planning Association (FPA) . . www.fpanet.org

Massachusetts Office
19 Harrison Street, Framingham, MA 01701-2313
Consumer line 866-804-0484
Online www.fpama.org

■ National Association of Personal Financial Advisors (NAPFA) www.napfa.org

355 West Dundee Road, Suite 107
Buffalo Grove, Illinois 60089
888-FEE-ONLY or 847-537-7722
NAPFA represents fee-only planners.

People and firms who hold themselves out as providing investment advice must be registered with *either* the Securities & Exchange Commission (SEC) in Washington, DC *or* the Massachusetts Secretary of State's office in Boston. Persons managing: *over* \$25 million for clients must be registered with the SEC; *under* \$25 million, or not managing money, must be registered with the state. To find out if a person or firm is registered, contact:

■ Securities & Exchange Commission . . . www.sec.gov

Boston Office 617-424-5900
Washington, DC Office 800-732-0330
You can also call the SEC for general consumer information and to report suspected improprieties.

■ Massachusetts Secretary of State's Office, Securities Division mass.gov/sec/sct/sctidx.htm 800-269-5428 or 617-727-3548



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One Charles Park
Cambridge, MA 02142-1206
(617) 679-MTRS (6877)
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Online mass.gov/mtrs

This brochure is written in simple language and is intended for use by members of the Massachusetts Teachers' Retirement System. It briefly describes issues you should consider when selecting a financial planner and is meant to help you in your search for the appropriate advisor. Please note that, as a state agency, the MTRS is unable to recommend specific planners or firms.

Choosing a Financial Planner

An MTRS Basics Brochure for our active and retired members



How to Choose a Financial Planner

Choosing a financial planner can be one of the most important financial decisions you make, but finding the right person may be difficult.

Our financial lives have become very complicated. Years ago when you walked into your local savings bank to get a mortgage, you were given two choices: do you want a 20-year or a 30-year mortgage? Today banks offer an overwhelming selection of mortgages and rates to choose from plus a mind-boggling array of financial products. As a result, more individuals are using a financial planner. You may need a trusted advisor to help you through the financial maze—but *how do you find one?*

Finding the right planner

Begin by asking your friends, work associates and relatives if they use a financial planner. Speak with your other professional advisors such as your attorney or accountant and ask whom they would recommend. Contact professional organizations and ask them to send you the names of planners in your geographical area (see back panel).

Next, interview several planners before you decide to become a client. Many planners offer a free introductory consultation—take advantage of this opportunity to find out about the planner and the firm. Don't be afraid to ask tough questions (see side panel). Remember, *this is your money*.

How financial planners are compensated

It is important to understand how the financial planner will be compensated for his or her services. Planners generally charge using one of these four methods:

- **Fee-only:** This can be an hourly fee, a flat fee for a comprehensive plan or an annual retainer amount. Fee-only planners do not earn any compensation from the investments they recommend; they may not be able to charge on a commission basis because they may not be licensed to sell financial products.

- **Commission-only:** A commission-only planner earns his or her compensation when you actually purchase an insurance or financial product, such as a mutual fund, from him or her. When dealing with commission-only planners, exercise caution because their only source of income is the revenues generated from selling.
- **Fee and commission:** Also known as fee-based planning, this is the most popular form of financial planning compensation. The planner earns an hourly fee for meeting with you and providing advice as well as commissions on financial products you may purchase.
- **Money management:** Some planners manage your investments for you and charge you a percentage of the assets under management as their fee (usually around 1%). Again, exercise caution when choosing a money manager especially if you are giving someone discretionary power over your money.

What to expect from a planner

A good financial planner will

- assess your existing financial situation (review your tax returns, income sources, assets, debts, savings and investments, wills, insurance policies, estate and retirement planning documents);
- identify your personal and financial needs and goals in order to develop a plan that's right for you;
- explain the pros and cons of various options and products (stocks, bonds, mutual funds, IRAs);
- assist you in carrying out your plan by referring you to other professionals as necessary (investment brokers, accountants, lawyers); and,
- periodically evaluate your plan with you to be sure that it is still in line with your current goals.

What all those letters mean

AICPAPFP—American Institute of Certified Public Accountants/Personal Financial Planning Specialist

A Personal Financial Planning Specialist is a CPA who has passed a financial planning exam, has practical experience in financial planning and is a member of the AICPA.

CFA—Chartered Financial Analyst

CFA is a designation awarded by the Institute of Chartered Financial Analysts to experienced financial analysts who have passed exams in economics, financial accounting, portfolio management, security analysis and standards of conduct.

CFP—Certified Financial Planner

A CFP is a planner who has met educational and experience requirements, agreed to abide by a code of ethics and passed a national test administered by the CFP Board of Standards. The exam covers insurance, investments, taxation, employee benefits, retirement planning and estate planning.

ChFC—Chartered Financial Consultant

ChFC is a designation awarded by the American College of Bryn Mawr and is the insurance industry's financial planning designation. Consultants must meet experience requirements and pass exams covering finance and investing.

CLU—Chartered Life Underwriter

CLU is a designation awarded by the American College of Bryn Mawr. Recipients must pass national examinations in insurance

and related subjects as well as have business experience in these areas.

CPA—Certified Public Accountant

A CPA is an experienced accountant who has met the educational, statutory and licensing requirements of the state in which they reside. CPAs perform audits and prepare tax returns—they leave the financial planning advising to the Personal Financial Planning Specialists in their field.

RIA—Registered Investment Advisor

An RIA is an individual who has registered with the Securities & Exchange Commission (SEC) and holds himself or herself out to be an investment advisor. Registration is required of anyone who, for compensation and as part of a business, gives advice, makes recommendations, issues reports or furnishes analysis on securities either directly or through publications. If a planner is an employee of an advisory firm such as a brokerage house, the brokerage house will have a blanket registration with the SEC for all employees.

Please note that, because the MTRS is a state agency, we are unable to recommend or refer you to a specific planner or firm.